STRATEGIC GOAL FOUR

Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services.

This strategic goal measures the successful leadership and support services the Agency's administrative functions provide to maximize the efficiency and effectiveness of SBA in achieving its programmatic goals as reflected in Strategic Goals One, Two, and Three, while also complying with relevant statutory and administrative mandates.

The Office of Human Capital Management (OHCM) contributes to this goal by recruiting, sustaining and effectively deploying a skilled, knowledgeable, diverse and high-performing workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of the Agency.

The Office of the Chief Financial Officer (OCFO) contributes to this goal by providing financial management systems to support both strategic management and financial accountability and by producing financial information that is useful, relevant, timely and accurate, and which assists in maximizing program performance and accountability. This office also has the Agency's lead in strategic planning, performance reporting and internal controls.

The Office of the Chief Information Officer (OCIO) contributes to this goal by ensuring technology is managed effectively and securely and by leveraging data and systems to support program execution. This includes ensuring optimal infrastructure, equipment, technology and customer support.

The Office of Management and Administration (OMA) contributes to this goal by planning and managing procurement and contracting services to support program management and assisting in competitive sourcing of certain activities performed by the Agency.

LONG-TERM OBJECTIVE 4.1

SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.

The following outcome measures determine success in meeting this objective:

4.1.1 By FY2008, through effective policy guidance, leadership and administration, ensure that SBA regularly achieves at least 90 percent of its Annual Performance Goals.

4.1.2 By FY2006 and each year thereafter, lead SBA to achieving a rating of "green" on each of the 5 initiatives on the PMA.

4.1.3 By FY2008, all major SBA programs rated by OMB will receive a PART evaluation of "Effective." By FY2006, SBA will ensure that at least 60 percent of major SBA programs rated by OMB receive a PART evaluation of "Effective" and that none is rated less than "moderately effective."

4.1.4 By FY2004 and each year thereafter, SBA district offices' goals will consistently, directly and measurably support the Strategic Goals and Long-Term Objectives of the Agency, as established in the Strategic Plan.

SBA Annual Results Program Performance and Costs to Achieve Results

Office of Congressional and Legislative Affairs

During FY2004, the Office of Congressional and Legislative Affairs (CLA) encouraged, promoted and assisted senior staff, including the Administrator and Deputy Administrator, in doing field events with key Congressional leaders and others. In order to achieve this result, CLA engaged in the following activities:

- Provided accurate, current and continuous information to Members of Congress, congressional committees and others interested in SBA programs;
- Devised and implemented legislative strategy and communicated SBA's policies to Congress;
- Provided liaison with legislative personnel at the White House, the Office of Management and Budget, and various Federal departments and agencies;
- Coordinated with program offices and field offices to ensure continuity and consistency in the SBA's communications with Congress; and
- Coordinated the analyses of effect of legislation on the SBA and the small business community in cooperation with program offices.

Office of Communications and Public Liaison

In FY2004, the Office of Communications and Public Liaison developed ways to better execute its communications and marketing functions in order to achieve the result of more efficiently delivering a coherent message to the nation's small business community and the public. To that end, the office undertook the following activities:

- Upgraded the success story database to a Web-based system, ensuring easier use and wider dissemination;
- Improved press release distribution at the field level to obtain as broad media coverage as possible;
- Created and implemented a new Agency-wide marketing plan designed to unify, strengthen and support SBA outreach efforts at the National and field levels;
- Hired a new Webmaster to begin improving usability of the SBA Web site through improved processes and systems; and
- Expanded the marketing of the Agency through public service announcements and advertorials through major National publications.

Office of Hearings and Appeals

In order to improve the accuracy and availability of information to Agency staff and the public, and to streamline case management processes and procedures, the Office of Hearings and Appeals (OHA) implemented several strategies during FY2004 that are linked to three measures of outcome.

Strengthen OHA internal systems and processes to improve program efficiency and effectiveness

1. **Develop and Implement an OHA Electronic Case Management Tracking System**

   During FY2004, OHA developed an electronic case management tracking system that provides case assignment management, tracking and control. This system provides the capability to monitor and track a case through every step of the process, including related case resources (e.g., people, documents, reports, etc.). The focus of this project was on enhancing OHA's internal systems and processes and on improving the quality of service provided to SBA customes.

2. **Implement Freedom of Information Act (FOIA) Database Tracking System**

   During FY2004, OHA and the Office of Chief Information Officer (OCIO), through a joint collaboration, designed and developed a Web-based tracking system for all Freedom of Information Act (FOIA) and Privacy Act (PA) inquiries received by the Agency nationwide. The system allows users to enter FOIA and PA request data and to track and update each step of processing from receipt to final determination. The system also has reporting capabilities to create management reports and end-of-year statistics for the Annual FOIA Report to the Department of Justice.

   The system was deployed to all designated FOIA contacts and Back-up Users in the program and field offices. Use of the system is mandatory for all designated FOIA contacts. At the time of deployment, a User's Manual was made available and posted at the FOIA Online Training site.

3. **Publish User's Guide and Conduct Training for FOIA Database Tracking System**

   A User's Guide for the FOIA Database Tracking System was published to describe the system and its requirement, and to detail how it works. It provides the reader with a brief tutorial of the tracking system and can also be used as a reference tool to explore specific topics as needed.

   Training for the FOIA Database Tracking System was developed using a rigorous set of criteria that includes quality content, interaction, graphics and interspersed questions. Multiple training formats were developed, including a hands-on session for headquarters staff and Web-based training that was posted on the FOIA Website and which can be taken anytime, anywhere.

4. **Implement Online FOIA Training Guide**
   In collaboration with OCIO, OHA designed and developed the Online FOIA Training Guide. This Web-based training tool was designed to ensure that all employees are trained and current on the requirements of both FOIA and the Privacy Act. This training provides Agency employees with a basic understanding of FOIA and the specific procedures for processing routine FOIA requests. The course consists of four modules with several self-paced lessons. It uses a step-by-step format to present information in a clear, simple manner and to reinforce the appropriate process for responding to FOIA requests. Because of the sensitivity and often times, complexity of FOIA requests, the training is mandatory and employees are required to take the course and "Test Your Knowledge" quiz on an annual basis

Expand the Use of the Internet and information technology to simplify the interaction between OHA and the public.

1. **Develop and Publish FOIA Annual Review**
   The FOIA Annual Review was developed and published during FY2004. This report covered the preceding fiscal year and included mandated Agency-wide statistics of FOIA and Privacy Act request and appeal activities. The report was posted on the FOIA Website, which should result in increased electronic access to information needed to provide guidance and technical assistance to Agency staff and the public, as well as enhanced accuracy, timeliness and efficiency of service provided to those customers filing FOIA requests.
2. **Publish the Agency's Privacy Act System of Records**
   OHA published SBA's Privacy Act System of Records, as required of all Federal agencies. These systems protect records that the government maintains and that are retrievable by a personal identifier. The last comprehensive publication of SBA's Systems of Records was in 1991. This past year, OHA developed a new publication to consolidate and organize all of the various individual publications. This initiative provided an opportunity to amend existing systems in a timely and cost-effective manner. After the systems were published, a hotlink to the systems was added to the FOI/PA Office's home page. This should result in improved access to Privacy Act information, with all of SBA's Privacy Act Systems of Records being available electronically from a single source. This initiative will also be an educational resource for the Agency and the public sector.

Disclosure of Information

3. **Draft and Publish Privacy Act Standard Operating Procedure (SOP 40-04)**
   The Privacy Act SOP was revised to incorporate several major changes, including but not limited to: a new Agency-wide routine use for disclosure to include SBA volunteers, interns and contractors who have an official need for a record; the elimination of SBA Form 1098 Privacy Act Statistical Log; information regarding the circumstances for and an explanation of Privacy Impact Assessments (PIAs); and a description of the new FOIA Database Tracking System. This SOP was posted on the Agency's Website and a button was also added at the FOIA Website.
4. **Draft and Publish Disclosure of Information Standard Operating Procedure (SOP 40-03)—Completed July 26, 2004**
   The Disclosure of Information SOP had not been revised since 1988. The new SOP establishes procedures and guidelines for the FOIA that conform to current law and regulations. It includes changes resulting from the Electronic FOIA Amendments of 1995, which were also incorporated in the recent revision of the Disclosure of Information Regulations (13 CFR Part 102) published in October 2003. It is written in an easy to read, question and answer format with sample language and letters included in the appendices. This SOP will greatly benefit employees as a resource/reference tool in facilitating an understanding of the Act and responding to FOIA inquiries. This SOP was also posted on the Agency's Website and a button was added at the FOIA Website.

Office of the General Counsel

During FY2004, the Office of the General Counsel (OGC) completed projects that achieved the following results:

A-76 Competitive Sourcing Initiative
OGC conducted a streamlined competition of the field paralegals. This competition was conducted within the specified timeframes and a decision was rendered. It resulted in the decision that retaining the paralegal function in-house was more cost effective for the Agency.

Bring SBA's Ethics program into Full Compliance
OGC has met or is on target to meet its goals in bringing the Agency's Ethics Program into full compliance in accordance with the Office of Government Ethics regulations.

Support SBA's Workforce Transformation
OGC provided the legal support for the Agency's workforce transformation effort. In addition to providing legal advice and representation to the Agency in its transformation initiative, OGC also provided legal advice and training to Agency employees involved in A-76 competitive sourcing matters.

Office of Field Operations

The Office of Field Operations (OFO) accomplished the following in support of SBA Long-Term Objective 4.1:

Outcome Measure 4.1.1
By FY2008, through effective policy guidance, leadership and administration, ensure that SBA regularly achieves at least 90 percent of its Annual Performance Goals.

Regional Administrator Scorecard Reviews. During FY2004, Quarterly Regional Administrator Scorecard reviews were conducted by the Associate Administrator for OFO. These reviews provided the platform to assure accountability in SBA program delivery. The process served as a forum to discuss performance progress as well as to identify potential issues on the horizon, which would affect the small business community. These periodic reviews supported SBA in the achievement of at least 90 percent of its annual performance goals.

Quarterly Regional Scorecard Award. During FY2004, OFO recognized that to retain and maintain productive employees, employees must be rewarded. This initiative recognizes the region that has performed most effectively. These awards help SBA achieve a PMA rating of green for meeting the Core Criteria of the Human Capital Initiative and will go a long way in improving job satisfaction.

Outcome Measure 4.1.4
By FY2004 and each year thereafter, SBA district offices' goals will consistently, directly and measurably support the strategic goals and Long-Term Objectives of the Agency, as established in the Strategic Plan.

Established and monitored performance goals for the districts. FY2004 is a transition year as the Office of Field Operations works with the field offices and the program offices to refine performance goals for each district and to directly link them to the SBA Strategic Plan's strategic goals and Long-Term Objectives. By establishing reasonable but challenging performance goals for each district, based on consistent methodology, SBA will be appropriately aligning resources to the needs of the small business community.

SBA Execution Scorecard. During the first half of FY2004, the SBA Execution Scorecard was embraced as the tool of choice to provide communication and access performance measures throughout the Agency. The OFO provides the on-going administration and oversight of the Execution Scorecard as a management tool in the region and district offices.

Field Communications. During FY2004, OFO issued, on a bimonthly basis, the Transformation Newsletter to the field which highlights "The New SBA" progress. These newsletters are also posted on the OFO Web page. Effective communication among senior OFO and CIO management has resulted in the delivery of several Rapid Application Development (RAD) projects. The District Office Profiles are now automated to allow HQ, Regional and District office managers online access to specific information relevant to District Offices.

LONG-TERM OBJECTIVE 4.2

SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse and high-performing workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.

The following Outcome Measures determine success in meeting this objective:

4.2.1 In FY2004 and maintained each year thereafter, SBA will achieve a rating of "green" for having met all of the Core Criteria of the Human Capital initiative on the PMA.

4.2.2 As a result of a revised management and performance culture, SBA employees' rating of overall satisfaction with their jobs will increase each year and, by FY2008, will exceed the government-wide average by at least 10 percent.

4.2.3 The percentage of SBA employees possessing core competencies identified for their positions is identified in FY2004 and the resulting gaps in current and future skills and competencies in mission-critical occupations is reduced by 20 percent each year.

Program Performance and Costs to Achieve Results

Office of Human Capital Management

Outcome Measure 4.2.1

In FY2000 and maintained each year thereafter, SBA will achieve a rating of "Green" for having met all of the Core Criteria of the Human Capital Initiative on the PMA.

While SBA did not achieve its goal in FY2004 of getting a rating of "green" on its status with respect to this PMA initiative, it has been making significant progress on this objective by implementing a comprehensive human capital strategy that is closely aligned with its mission, goals and organizational objectives. In doing so, SBA continued to be rated "green" on progress on the Human Capital Scorecard from the President's Management Agenda. The Agency also continued to achieve "yellow" on status. This was accomplished despite the retirement of the Chief Human Capital Officer (CHCO), the Deputy CHCO and three senior division directors.

Outcome Measure 4.2.2

As a result of a revised management and performance culture, SBA employees' rating of overall satisfaction with their jobs will increase each year and, by FY2008, will exceed the government-wide average by at least 10 percent.

Outcome Measure 4.2.3

The percentage of SBA employees possessing core competencies identified for their positions is identified in FY2004 and the resulting gaps in current and future skills and competencies in mission-critical occupations is reduced by 20 percent each year.

During FY2004, SBA completed its competency model analysis and surveyed all employees to benchmark skill sets and determine if any gaps existed. For those employees who shifted job functions, SBA utilized career development plans and offered them enhanced access to e-Training in core business related topics. SBA also completed a comprehensive leadership competency assessment of all supervisors and managers. It is utilizing this aggregate data to design an extensive succession planning strategy.

In addition, SBA developed and implemented core skills training for field staff through a blended learning approach. SBA created a substantial on-line curriculum related to its core business functions that is currently available to all employees. This will be supplemented by a classroom training experience, conducted onsite in the district offices.

SBA revised its Human Capital Plan based on evaluation of transformation initiatives and will publish its plan for all employees.

The Agency completed the first year of a new performance appraisal system where individual employee performance is closely aligned with the Agency's strategic plan. Each employee's personal plan was linked to the accomplishment of SBA's business goals and objectives.

Office of Equal Employment Opportunity and Civil Rights Compliance

Outcome Measure 4.2.1

In FY2000 and maintained each year thereafter, SBA will achieve a rating of "Green" for having met all of the Core Criteria of the Human Capital Initiative on the PMA.

Intermediate Outcome Measure: Ensure nondiscrimination in programs/activities receiving SBA financial assistance.

The Office of Equal Employment Opportunity and Civil Rights Compliance (EEO&CRC) implemented three projects during FY2004 in order to accomplish this goal in a manner that supported initiatives on the President's Management Agenda:

1. *E-Government*. In alignment with the PMA initiative under e-government, CRC finalized and implemented the external CRC Web page in both Spanish and English. The Spanish language component of the Website will enhance the Agency's outreach efforts to the Hispanic community and Hispanic-owned small businesses nationwide, and will increase Spanish-speaking users' access to civil rights compliance information and resources.
2. *Human Capital.* In alignment with the PMA human capital and pay for performance initiatives, an internal review of the Agency's civil rights compliance review process was undertaken and resulted in identification of the need to establish an appropriate scope of CRC jurisdictional purview. This jurisdictional evaluation is complete and will be followed by corrections of related SOP, as needed.
3. *Human Capital.* In alignment with the PMA pay for performance initiatives, management controls have been refined, established and applied to the CRC processes. Implementation of centralized controls in CRC functions include CRC reviews and associated reporting, file maintenance and complaints activity, improving program monitoring, record maintenance and reporting processes.

Intermediate Outcome Measure: Achieve diversity based on merit.

During FY2004, EEO&CRC implemented three projects to accomplish this goal in a manner that supported initiatives on the President's Management Agenda:

1. *Human Capital.* In accordance with the PMA human capital initiatives, EEO&CRC assessed organizational shifts and evolving trends in the Federal workplace and developed methods for creating EEO programs that are free from discrimination based on race, age, national origin, religion, color, disability or retaliation, in all phases of the employment process. Achievement of this goal should serve as a basis for formulating and executing plans to attract, develop and maintain a diverse and highly qualified workforce, aiding and supporting the achievement of the Agency's strategic mission.
2. *E-Government.* In accordance with the PMA initiative, EEO&CRC implemented automated training modules, which are located on the newly established EEO&CRC Web page on reasonable accommodation and disability issues. In FY2005, EEO&CRC will continue this initiative and implement training modules on sexual harassment, Federal sector EEO complaints processing, and Alternative Dispute Resolution through mediation.

Intermediate Outcome Measure: Ensuring nondiscrimination of SBA employees/applicants for employment.

EEO&CRC implemented two projects to accomplish this goal in a manner that supported initiatives on the President's Management Agenda.

1. *Financial Management.* In accordance with the PMA financial management initiative, EEO&CRC facilitated Agency-wide implementation of the terms of P.L. 107-174, the Notification and Federal Employee Anti-discrimination and Retaliation (NOFEAR) Act of 2002. The purpose of the NOFEAR Act, effective October 1, 2003, is to require Federal Agencies to be more accountable for violations of antidiscrimination and whistleblower protection laws. Facilitating implementation of the terms of the Act ensures that SBA remains in compliance with all reporting requirements.

2. *E-Government.* In accordance with the PMA initiative on e-government, EEO&CRC began implementing automated training modules, which will be located on the newly established EEO Web page, on the prevention of sexual harassment, disability and workplace accommodations, Federal sector EEO complaints processing and Alternative Dispute Resolution through mediation. The training modules will allow SBA's workforce to gain awareness of the various EEO areas, as well as to provide resource information.

Office of Field Operations

Outcome Measure 4.2.1

In FY2004 and maintained each year thereafter, SBA will achieve a rating of "Green" for having met all of the Core Criteria of the Human Capital Initiative on the PMA.

Alternate Work Sites. In FY2004, 9 Alternate Work Sites (AWS) were established in 5 states. The implementation of this initiative aligns the human capital strategy with the mission, goals and organizational objectives. AWS will enable district offices to move towards a citizen-centered organization by increasing direct service delivery and interaction with customers. This project establishes the guidelines and justifications needed to establish an AWS.

LONG-TERM OBJECTIVE 4.3

Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.

The following outcome measures determine success in meeting this objective:

4.3.1 By FY2006, achieve a rating of "Green" for the Financial Management Initiative of the PMA.

4.3.2 By FY2005, achieve a rating of "Green" for the Budget and Performance Integration Initiative of the PMA.

4.3.3 Each year, SBA financial systems will meet the standard as prescribed in the Federal Financial Management Improvement Act (FFMIA).

4.3.4 Each year, SBA will receive an unqualified opinion on its financial statement audit.

4.3.5 By FY2008, budgeting and performance measurement will be fully integrated at SBA.

4.3.6 By FY2008, 75 percent of non-financial managers will agree with the statement that financial performance information is being used in SBA budget formulation and strategic planning and that they understand how such uses have been relevant to their own areas of responsibility.

SBA Annual Results

Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.

Outcome Measure 4.3.1

By FY2006, achieve a rating of "Green" for the Financial Management Initiative of the PMA.

The PMA for Financial Management, the independent audit process and the IG Management Challenge on Financial Management are all focused primarily on production of timely, reliable and consistent financial information. Given that an Agency's ability to meet this standard is most easily measured by the independent audit opinion, SBA's efforts this past year were particularly focused on improving its audit opinion. By building on the progress made in FY2003, the OCFO was able to address virtually all of the issues identified in last year's audit and to complete SBA's financial statements within the accelerated FY2004 schedule. The Agency made substantial improvements in the internal controls surrounding the subsidy modeling re-estimate process, as well as the financial reporting process, both areas identified by the auditor in FY2003 as material weaknesses. SBA is particularly proud of the progress made given the shortened reporting cycle.

The FY2003 audit report included 13 recommendations to address weaknesses in the Agency's credit reform controls. The recommendations ranged from improving documentation of the models, procedures and related data to establishing procedures to identify and explain unusual subsidy balances. To address these recommendations, SBA took the following actions:

- Established a Loan Team within the OCFO that includes staff working on loan programs in the budget, accounting and subsidy model development areas to enhance communication and consistency and to work as a team to resolve the audit findings and other identified problems;
- Created and followed a new, rigorous internal control process for developing the subsidy cost estimates and re-estimates that included improved documentation for all of the loan models;
- Developed several new analyses and reports to compare the net present value of the cash flows in the subsidy cost models with the assets and liabilities recorded in the Agency's accounting system;

- Adopted the "balances" approach to re-estimates to ensure consistency between the accounting system and subsidy models; and
- Completed a major effort to improve the quality of the data used in the SBIC loan subsidy models and made further improvements to the forecast assumptions for the SBIC Participating Securities subsidy model.

With regard to weaknesses in the Agency's financial management and reporting processes, the FY2003 audit report included 16 recommendations covering a wide range of topics such as conducting a broad review of SBA's budgetary proformas and making specific accounting policy changes. Because of SBA's inability to meet many of its internal deadlines in FY2003, a key recommendation was that SBA develop a comprehensive plan with firm milestones for meeting the accelerated financial statement schedule. SBA agreed that this was a key challenge and it became a top priority for FY2004. The Agency started by adopting a conceptual change which was to see the financial statement and PAR production process, not as a year end activity, but instead, as an ongoing, year-round activity. Most of the information used in the year end statements is not produced annually but at least, quarterly and frequently, monthly or even daily. This provided a tremendous opportunity for reviewing data and addressing problems and inconsistencies long before the year-end. SBA utilized this notion to realign responsibilities among various offices within the OCFO to work more effectively with SBA's program offices; to enhance reports; and to establish new procedures for reviewing existing reports to get more out of them. Highlights of the specific actions taken include:

- Expanded the quality assurance group in Denver to focus on getting the proper data in the financial system in the first place, so there would be less data quality clean-up work required during report production;
- Enlisted an independent accounting firm to work with an internal team to improve journal voucher proformas, reconciliation reports and procedures;
- Developed and circulated new reports for the procurement office and all program offices to identify and, if necessary, to liquidate outstanding obligations on an on-going basis; and
- Developed a comprehensive plan with firm milestone dates to meet the FY2004 accelerated financial reporting date of November 15th.

During FY2004, SBA also undertook an upgrade of its administrative accounting system based on Oracle's Federal Financial software. Planning, development and testing were completed during the year and, at the start of FY2005, SBA switched to Oracle 11i. This software upgrade provides additional administrative accounting functionality and should minimize the number of manual adjustments required in preparing financial reports.

Outcome Measure 4.3.2.

By FY2005, achieve a rating of "Green" for the Budget and Performance Integration Initiative of the PMA.

As a result of the SBA's accomplishments in integrating its budget processes and its performance, the Agency achieved a rating of green on both progress and status on this President's Management Agenda item. This green rating was achieved one year ahead of the Agency's plan, as indicated by the outcome measure shown above. **SBA is currently one of only five government agencies to get this rating. In addition, the independent Mercatus Center reported in April 2004 that it ranked SBA as the top Federal Agency in linking goals and results to costs and it cited SBA as a clear best practice in this area.**

The cornerstone of the Agency's integration of budget and performance is its five-year strategic plan. The plan was designed such that all Agency programs and administrative activities support SBA's four goals. Each goal has Long-Term Objectives with measurable outcomes and outputs. The main thrust behind the creation of the new SBA's Strategic Plan was to set outcomes that would allow SBA to measure the impact that the Agency may have on the small business community, as a measure of SBA performance.

This year, all planning and budget processes were conducted in relation to these Long-Term Objectives. Management was informed about performance data (targets and accomplishments) when making budget decisions. This was true of all major budget processes, including the annual operating budget, mid year reviews and planning for FY2006.

For a number of years, the Agency has used an activity-based costing model, which identifies the full cost of each of its programs. This model is based upon a survey, which was conducted this year in April 2004. In order to further improve the survey, Office of the Chief Financial Officer (OCFO) staff met with all program offices to review in detail how the survey is conducted, how costs are determined and how indirect and overhead costs are allocated. Through these meetings and subsequent discussions with program offices, the activities to which staff attribute their time, and the manner in which program costs are determined by activities, were refined in order to improve the survey. The results of the activity-based costing model allow SBA to identify the full cost of its programs. That information led in part to the decision to discontinue the Business Information Center program. SBA is considered a leader in activity-based costing and is called upon by other Federal agencies for advice and assistance in their efforts at full costing of their programs.

Another example of how operational and financial data is being used by the Agency is the centralization of the loan liquidation activities into one office (from 69), which reduced SBA costs from approximately $32 million in FY2003 to an estimated $16 million in FY2006 (a 50% reduction in cost). The beginning point of this change was the activity-based costing model that made managers aware of the amount of resources being used by the liquidation activity.

During this year, the Agency established annual performance indicators for all programs. These indicators appeared in the Performance and Accountability Report. The Agency also maintains an Executive Scorecard. This scorecard is used by senior management to periodically review the accomplishments of Agency managers in achieving their goals. This year, the OCFO worked closely with the Office of the Chief Operating Officer to ensure that the scorecard accurately reflected the goals established in the Agency's Performance Plan.

A factor in the process of budget and performance integration has been the training of program offices. For example, offices received training in the development of annual performance plans for incorporation into the Agency's FY2006 budget. The training consisted of an introductory overview of what was needed from SBA offices in order to meet OMB requirements; general guidance on how to meet those requirements; and specific suggestions relating to approaches for addressing individual programs. A key emphasis of the training was on how to improve the quality of the office's submission so it would satisfy the intent of the Government Performance and Results Act and the expectations of the Office of Management and Budget.

In order to ensure Agency-wide participation in the strategic plan, annual performance appraisals for all managers have included an element rating them on how well they contributed to the Agency's achievement of its goals. This year, appraisals for non-supervisory staff now include such an element. These appraisals are referred to as Personal Business Commitments (PBCs) at SBA. Midterm reviews for staff this year included their individual accomplishments vis-à-vis the Agency's goals.

Intermediate Outcome Measure: No SBA programs are rated by OMB's Program Assessment Rating Tool as "Results Not Demonstrated."

Seven of the Agency's programs have been evaluated by OMB using the Program Assessment Rating Tool (PART). This year, this assessment focused on the 7(a) loan program. The OCFO assisted the process by providing hands-on training. The objectives of the training were analytical PART process linkage of PART questions with the Agency's Strategic Plan, and identification and research of internal and external sources of supporting documentation. The results of the PART evaluation of the Agency's programs are also a cornerstone of the SBA's green rating in performance and budget integration. (No program may be rated as "Results Not Demonstrated" in order for an Agency to receive a green in this PMA initiative.)

Intermediate Outcome Measure: Verify and validate all performance indicators and performance data used by SBA at the program level or above.

Data validation is defined as determining if the performance indicator actually measures the goal or objective of interest and is a useful guide to policy making decision. During FY2004, SBA continued moving forward improving the quality of their performance data and using it to manage for results. The SBA, through the OCFO, engaged in a process of validation of the performance measures currently in use. Each and every one of SBA's performance indicators were evaluated for accuracy, completeness, contribution to outcomes and usage for making policy decisions. The OCFO worked with the programs to assist them in the process of verifying the alignment of their performance indicators with the Agency's Strategic Plan. A summary of the FY2004 activities can be found under the Data Validation in the Management Discussion and Analysis section of this report.

The second criterion for data validation is the usage of the performance indicator as a guide to policy-making decision. Good examples of this use are:

The 7(a) program has various delivery methods, which are reviewed to ensure that the program's purpose is being met. They are monitored for performance and cost. For example: in FY2001, the program failed to meet its goals. As a result, SBA analyzed the existing delivery methods and chose to streamline and modify SBAExpress. Changes to the program were fully implemented in FY2003, resulting in exceeding SBA's loan goal by approximately 10%. Additionally, the unit cost for SBAExpress is almost 4 times lower than LowDoc and half the cost of Preferred Lender Program (PLP) loans. SBAExpress has a similar delinquency rate to PLP and approximately 1/3 of the delinquency rate of LowDoc.

The HUBZone Program found that it was meeting its goals for the number of firms applying certification as "qualified HUBZone small business concerns," and for the number of firms certified under the program. However, to meet statutory requirements and to maintain program integrity, the HUBZone Program determined that it needed to refocus field office efforts from marketing and outreach to conduct of program examinations. To this end, the Office of HUBZone Program implemented a new automated program examination system and negotiated with the Office of Field Operations for district offices to focus more of their HUBZone-related effort on performance of program examinations, and less on marketing and outreach. The Agency is engaged in an ongoing process to improve the data quality for its various programs. SBA managers are deeply aware that quality data is needed to have credible performance information that can be used to evaluate performance and support management decision-making. Below are some of the Agency's activities to improve data quality, and their results:

1) The Office of Entrepreneurial Development (ED) had two major improvements in data quality during FY2004:

    a) Performance indicators definitions for all the programs under the ED were standardized. This will allow for direct comparison of effectiveness and efficiency between the various delivery systems for technical assistance.
    b) The data collection on number of clients trained or counseled was modified to allow counting multiple visits by a client during a given fiscal year, as only one client served. This change will enable the SBA to more accurately measure the impact of its technical assistance.

2) A longstanding goal of the Office of Capital Access is to improve the quality and relevance of the data collected from SBA's lending partners during loan guaranty origination. SBA's E-Tran loan origination system takes huge strides toward this end by leveraging best-practice Internet technology to automate data collection at the source (SBA lending partners). Essentially, E-Tran significantly reduces the risk of transactional data quality flaws inherent to paper-based loan processing by minimizing dual key entry of loan data and by testing each data attribute submitted against consistent, clearly defined data validation and business rules, which are derived from Agency loan policy. For example, a $15 million SBAExpress loan guaranty request would be screened out for exceeding the "maximum loan amount" business logic coded into the system. In this instance, the system informs the user of the error and requests an acceptable entry for loan amount.

There are two E-Tran solutions that lenders can avail themselves of: XML loan data file transfer capability (from a software vendor's product or from a bank's proprietary system) to the SBA's E-Tran database or a Web application where lenders can enter loan information on individual loans. The data validation component of both solutions detects and flags erroneous data during entry into the system, allowing for interactive correction before submission. Loan applications containing data errors will not be processed and sent to funding; however, incomplete loans can be stored and completed at a later time, after data problems have been resolved. Additionally, participating lenders must log into the E-Tran system with their user names and passwords, which are entered into SBA's Security system and authenticated against SBA's Partner Identification Management System (PIMS). The Security system and PIMS serve as the gatekeepers to E-Tran. The integration of these three systems prevents a lender with an inactive lending agreement from processing a loan electronically.

It should also be noted that during the planning and implementation of E-Tran, the Office of Capital Access facilitated an Agency-wide effort to optimize the data set collected during loan guaranty origination. This process led toward expanding the data set to include mission critical information requested from the Office of Lender Oversight and the Inspector's General Office, and to enhance the level of specificity of certain data elements. For example, lenders processing through E-Tran will use a drop-down menu with six categories for "business age," as opposed to providing inconsistent written responses based on their interpretation of the data field. This has standardized the loan definition of "start-up business." In the near future, the Office of Capital Access will notify lenders who are not currently part of E-Tran of this change.

Currently, E-Tran is available for SBAExpress processing only, but SBA will be expanding the availability to include additional loan programs in the near future.

3) The Office of Lender Oversight (OLO) manages the Loan/Lender Monitoring System (L/L/LMS). This System's Lender Oversight & Risk Management online system was completed in FY2003. This is not a system of record, and therefore, does not populate/feed any of the Agency's other databases. Instead, this system has a database set up to monitor and review 7(a) & 504 lenders and overall portfolios. Data in this system comes from the Loan Accounting Database (Mainframe), Partner Identification and Management System (PIMS), supplemental 504 data from Colson & Bank of New York (504lamp) and private sector borrower information (D&B, etc.).

Lender Oversight integrated the loan and lender monitoring system into its operations. The system is used to rate and rank lenders according to risk. Smaller lenders are overseen exclusively utilizing the system and its risk ratings. Exception reporting identifies those smaller lenders with changes in performance and credit quality trends for follow-up. Larger lenders are also subject to on-site reviews. The system is used to prioritize reviews, plan and conduct reviews, and monitor large lenders between reviews. Since there are almost 4,000 lenders with SBA loan portfolios of less than $1.0 million, the system provides an efficient means of overseeing performance without the need to review each one individually. This approach allows SBA to better utilize its resources and focus on those lenders representing the most risk to SBA in terms of exposure and credit quality, while monitoring those representing less risk.

The SBA is committed to continually improving its internal systems to ensure a close integration of its program performance and budget processes. During FY2003, all SBA's programs were internally evaluated using the OMB Program Assessment Rating Tool. As a result of the evaluation, it became apparent that there was a generalized need for assisting the programs with the linkage of their performance indicators with Agency's outcomes. Additionally, the new SBA Strategic Plan accentuated the need. In response, this year, an independent evaluation of many Agency programs was started. This was a recommendation of the PART process, which the Agency is implementing. Instead of providing resources for all programs, the Agency decided to focus on Strategic Goal 2, which represented approximately 2/3 of SBA's budget during FY2003. This should be a more efficient use of the funds, at the same time, emphasizing the multiple contributions required for achieving the Agency's Long-Term Objectives.

Outcome Measure 4.3.3

Each year, SBA financial systems will meet the standard prescribed in the Federal Financial Management Improvement Act (FFMIA).

Although SBA has continued to make improvements in this area, because of lingering information technology constraints, SBA has still not fully met the standard prescribed in the Federal Financial Management Improvement Act (FFMIA). The Agency has developed procedural compensating controls for some items where it could not correct the problem technologically, but the financial system has still been deemed not in compliance by the independent auditor. The status is a reportable condition, however, not a material weakness. While SBA will make resolving this a high priority in FY2005, if a technological solution is ultimately required, it may take SBA several years to complete resolution of the problem because of the cost and level of effort required.

Outcome Measure 4.3.4

Each year, SBA will receive an unqualified opinion on its financial statement audit.

As described in more detail under Outcome Measure 4.3.1, this is SBA's top financial management objective and all available resources are focused on improving the quality, timeliness and reliability of the financial information. The following is a summary of SBA's financial management plan, which provides a longer-term strategy for maintaining a clean audit opinion.

Summary of SBA's Financial Management Plan

The OCFO's approach to accomplishing its financial management objectives is twofold: address and solve the current issues while continuing to make meaningful progress in identifying and resolving any underlying systemic problems. By far, the most substantial current issue has been the acceleration of the financial statements reporting deadline from January 31st to November 15th. During FY2004, in addition to resolving all of the outstanding FY2003 audit items, SBA had to accelerate its budget execution, accounting and reporting processes to meet the new deadline. During FY2005 and beyond, SBA plans to continue building on its success in meeting the accelerated reporting schedule and in improving its internal control processes to ensure it produces financial information that is useful, relevant, timely and accurate, and which assists SBA in maximizing program performance and accountability.

In FY2005, SBA will further strengthen its internal control processes by completing additional data quality improvements, particularly in the loan program area, while refining procedures for producing financial statements by November 15th. SBA also plans to complete additional analysis to further improve the consistency between the credit subsidy model forecasts and the loan accounting system. Continuing the documentation of processes and updating Standard Operating Procedures is also a priority for FY2005.

During FY2004, SBA also completed the work necessary to upgrade the Oracle-based administrative accounting system to the latest available version, 11i. The new version was implemented during the second week of FY2005. During FY2005, SBA plans to continue improving its financial systems infrastructure, including exploring options for migrating the loan accounting system to a more modern platform. Improving the reporting capacity for aggregated loan accounting data is also an objective that will enhance productivity.

An additional top financial management priority for FY2005 and beyond is to improve SBA's human capital capacity. The Agency recently hired several new employees for the subsidy modeling team and will continue to build that group's resources. SBA is also expanding its expertise in credit program accounting. The Agency has developed strategies for cross-training staff across the budget, accounting and financial modeling disciplines and plans to continue those efforts going forward.

Outcome Measure 4.3.5

By FY2008, budgeting and performance measurement will be fully integrated at SBA.

SBA is well on its way to meeting this outcome measure. Continuing to improve and utilize the cost model, completing program performance evaluations for all major programs, and basing budget decisions on the results of program performance have been incorporated as part of SBA's regular business processes. These practices will continue to build on themselves and SBA will remain a leader in this area in the Federal government.

Outcome Measure 4.3.6

By FY2008, 75 percent of non-financial managers will agree with the statement that financial performance information is being used in SBA budget formulation and strategic planning and that they understand how such uses have been relevant to their own areas of responsibility.

For the past two years, SBA's financial management activities have been particularly focused on improving the "disclaimed" audit opinion and re-engineering the financial reporting process to meet the accelerated schedule. Now that SBA has significantly improved its financial processes, more resources can be devoted to this outcome measure. SBA plans to focus on expanding access to and use of financial performance information by non-financial managers in the coming year.

Improper Payments

As required by the Improper Payments Information Act, the SBA reviewed its payment programs during FY2004. The result of this review is summarized in the table below. From this analysis, the SBA identified four loan programs for further review. They are: the 7(a) Business Loan Program; the Section 504 Certified Development Company (CDC) Debenture Program; the Small Business Investment Company (SBIC) Program; and the Disaster Assistance Loan Program. The results of this further review of SBA programs for erroneous payments are shown below.

FY04 Risk Assessment for SBA Program Disbursements								
Program	FY 04 ($Millions)	# Disb	Overall Risk[1]	Complexity of Laws/ Regs.[2]	Complexity of Calculation of Payments[2]	Audit Requirements[2]	Internal Control History[3]	Comments
1. Payroll*	294.9	83,000	L	L	L	I/G		
2. Travel*	15.5	29,991	L	L	L	I/G	I/G	Minor findings
3. Contracts and Misc.*	125.1	89,413	L	L	L	I/G		
Credit Programs*								
4. 7(a) Guaranty	748.3	32,843	M	M	M	I/G	I/G	New Process[4]
5. 504	180.8	4,009	L	M	L	I/G		
6. SBIC Participating Sec.	692.7	10,241	L	M	L	I/G/R	I/G/R	Minor findings
7. SBIC Debentures	57.8	229	L	M	L	I/G/R	I/G/R	Minor findings
8. Disaster	468.3	62,003	L	L	L	I/G/R	I/G/R	Minor findings
Non Credit programs*								
9. SBG claims	7.4	571	L	M	L	I/G		
10. SBDC	81.2	768	L	M	L	I/G		
11. Drug-free workplace	1.7	111	L	M	L	I/G		
12. WBC grants	10.7	106	L	L	L	I/G		
13. Business LINC	1.8	46	L	L	L	I/G		
14. 7(j) technical assistance	0.76	30	L	L	L	I/G		
15. PRIME tech. asst.	4.8	344	L	L	L	I/G		
16. SBIR – FAST	1.9	77	L	L	L	I/G		
17. SCORE program	5.0	14	L	L	L	I/G		
18. MicroLoan technical asst.	17.5	720	L	L	L	I/G/R		
19. Congressional Initiatives	38.5	391	L	L	L	G		
TOTAL	2,682.70	317,159						

1. *L = Low risk or complexity, M= Medium risk or complexity, H = High risk or complexity. Improper Payment Improvement Act (IPIA) guideline for High Risk is $10 million* ***and*** *2.5% of Improper Payments.*
2. *Subject to audit as follows: I = Internal audit by SBA IG or SBA management; G = GAO audit/review; R = Regulatory examinations/audits required by regulation or statute. Programs have not necessarily been audited during the current period.*
3. *Findings, related to Improper Payments reviews. See comment column.*
4. *New Herndon center in FY04 for 7(a) purchase processing.*

* *Credit Programs reported under IPIA per mandate from OMB (previously identified as Exhibit 57 programs in OMB budget submission), even though the SBA's assessment is that its Credit Programs are* **not High Risk** *under IPIA (see Note 1). The SBA's Non Credit programs have sufficient internal controls, and the size of the programs is relatively small, so that they are deemed to be Low Risk under the IPIA guideline. SBA's payroll processing has substantial control through STAR T&A input, NFC internal controls and SBA internal controls, and is therefore deemed to be Low Risk under IPIA guidelines. Travel processing is tightly controlled by SBA and is very small, so that it is Low Risk using IPIA guidelines. Contract and Misc. processing is tightly controlled by OPGM in JAAMS and SACONS, is relatively small and therefore is Low Risk by IPIA guidelines.*

1. 7(a) Business Loan Program

Improper Payments Information Act (IPIA)
IPIA Reporting Details for 7(a) Business Loan Program

I. *Describe your Agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A–11.*

Response: Through the 7(a) business loan program, SBA guarantees loans originated by participant lenders to eligible small businesses. If a loan becomes over 60 days delinquent, the lender may request SBA to purchase the guaranteed portion of the loan. SBA then conducts a thorough analysis of the purchase request, including reviewing the lender's loan origination analysis, use of proceeds, and diligence in servicing and liquidating. If SBA determines that a lender has not complied materially with the loan authorization, SBA regulations, policy, or other Agency requirements including the terms of the guaranty agreement with the lender, SBA may modify the purchase request through a reduction of the amount paid, or deny the purchase request in full. The measurement of improper payments in the 7(a) business loan program logically resides with the guaranty purchase process, since this is when government funds are disbursed.

A January 2000 report issued by SBA's Office of Inspector General (OIG) provided the results of an audit of the 7(a) loan program that was conducted to determine whether loans were processed, disbursed and used in accordance with SBA requirements. OIG concluded that this was not always the case, and that a number of loans might have deficiencies, which could result in some improper payments. As a result of its review of this issue, OIG recommended that SBA centralize the guaranty purchase process for all loans. In response, SBA took three separate actions consistent with this recommendation. First, SBA centralized the purchase of loans made through the Agency's SBAExpress program at the Fresno and Little Rock commercial loan servicing centers. Second, with OIG's concurrence as to methodology, SBA established a process by which 5 to 10 percent of loans purchased each year would be reviewed centrally through the Guaranty Purchase Review program (GPR). The GPR was intended to strengthen the Agency's quality control and oversight of the 7(a) loan program, with specific emphasis on the purchase process that was being conducted at approximately 70 field office locations. Additionally, during FY2004 SBA centralized all 7(a) loan purchases (with the exception of SBAExpress as previously noted) in a newly established National Guaranty Purchase Center located in Herndon, Virginia. Information related to the level of errors in purchase disbursements did not exist prior to the GPR process.

Based on an analysis conducted in FY2002 of the results from the second year of the GPR (2001), SBA made an estimate of the level of improper payments in guaranty purchase disbursements based on a sample consisting of approximately 300 purchases. The percentage of possible improper payments (in terms of dollars disbursed) calculated for FY2001 was 1.9%. Accordingly, target "error" rates of 1.8% were projected for fiscal years 2002, 2003 and 2004. Further analyses were conducted in FY2003 and FY2004 on purchases reviewed in the GPR during fiscal years 2002 and 2003. Preliminary indications supported an improper payment consistent with that calculated for FY2001. Because of methodological issues and also as a result of the newly centralized 7(a) guaranty purchase process, further improper payment estimates will not be developed from the GPR for the reasons explained below.

II. *Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.*

Response: The sample of guaranty purchases selected for review in the GPR was not completely random since the group of cases chosen was intended to include purchases performed by about 70 SBA offices nationwide processing these actions. In addition, purchases were chosen by a method designed to ensure that the lenders involved had completed loan liquidation activity within a short period of time either before or subsequent to the purchase. Because of these selection criteria, it might be concluded that the selection process used in the GPR to determine the improper payment rate was not sufficiently random. To address these issues, a new quality assurance process has been developed for use at the primary center now processing purchase actions for use in determining the improper payment rate.

As indicated, virtually all guaranty purchase actions (except for those involving SBAExpress loans, which are handled by the Fresno and Little Rock commercial servicing centers) have now been centralized in one national center. At this center, purchase processes have been standardized, streamlined and brought into consistent conformity with SBA policy and procedures. The centralization process for the national center began in December 2003 when purchase actions and the associated loan files began to be shipped from approximately 70 of SBA's field offices to the National Guaranty Purchase Center (NGPC) in Herndon, Virginia. This loan purchase and liquidation centralization process continued until March 2004. The operations of the NGPC were stabilized and systematized prior to the end of FY2004, and therefore SBA believes that FY2005 will be the appropriate time to commence a review process to measure the level of possible improper payments. Consequently, SBA is terminating its reviews of GPR purchases as the basis for determining improper payment levels since these reviews would not be representative of SBA's ongoing guaranty purchase activity and may therefore be inaccurate.

A quality assurance review process for guaranty purchases at the NGPC began shortly before the end of FY2004 and will be expanded to include a review of 3-5% of the purchases approved by the center, with special attention paid to early defaulted loans and those with principal balances over $500,000. As a subset of the total purchases reviewed, at least 167 will be selected through a random process for purposes of improper payment determination. Of the 167 purchases that will be reviewed, 107 will be from those processed at the NGPC and 30 each will be from purchases processed by the Fresno and Little Rock centers. As noted below, SBA's previous improper payment estimate from the GPR was 1.9%. Since the minimum sample size of purchases needed to yield an improper payment estimate of 2% (with a 90% confidence interval of plus or minus 2.5%) requires a minimum sample size of at least 85, SBA will proceed with a very conservative approach and utilize a minimum sample size equivalent to an improper payment estimate that is twice as large—4% (based on a sample size of 167 purchases). The sample size determination is consistent with OMB's guidance that is based on the formula, n greater than or equal to 2.706(1-P)/(0.025/P)_P, where n is the minimum sample size and P is the estimated percentage of improper payments.

Through a random sampling process, SBA's NGPC and the commercial centers in Fresno and Little Rock will select during FY2005 the number of completed purchases specified above (107 for NGPC and 30 each for Fresno and Little Rock) for the improper payments review. The completed purchases will be selected on a monthly basis through SBA's Guaranty Purchase Tracking System using a random methodology. The purchases selected for the improper payments initiative will receive a complete review by a loan specialist, attorney and approving official. None of the individuals involved in the review of an individual purchase will have participated in the initial processing of the purchase. The improper payment reviews will examine whether the lender has (1) complied materially with the loan authorization, SBA regulations, standard operating procedures, loan program policy and other SBA requirements; (2) made, closed, serviced, and/or liquidated the loan in a prudent manner; (3) misrepresented or failed to disclose a material fact to SBA; or (4) put SBA's financial interest at risk. A database of all purchases reviewed will be maintained, and any improper payments will be identified and systematically recorded in order to estimate the improper payment percentage for purposes of the IPIA requirements.

The improper payment percentage will be calculated on a quarterly, based on the reviews conducted to that point during the fiscal year. The final FY2005 improper payment percentage will be based on the entire sample of 167 purchases reviewed during the year. In addition to these reviews, however, the NGPC will conduct further reviews for quality assurance purposes using selected risk criteria such as early default loans, problem lenders and high dollar purchases. Since these cases will not be selected in a purely random fashion, however, they will not form part of SBA's improper payment calculation.

III. Explain the corrective actions your Agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or corresponding steps necessary to prevent future occurrences. If efforts are already underway and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

Response: SBA will implement in October 2004 a new guaranty purchase quality assurance review process for the purpose of determining a FY2005 estimate of the improper payment rate on purchases made through SBA's centralized purchase environment. This review process began on an initial basis prior to the end of FY2004. The Agency will continue the review process, with modifications as needed, in FY2006 and future years with the goal of reducing the purchase error rate. This will be accomplished by identifying problem areas in policy and procedures that may require revision, and developing additional training materials based upon any policy or procedural changes. In this regard, SBA issued a major policy notice in October 2002 to ensure greater accuracy and uniformity in the guaranty purchase process, and in November 2002 trained all Agency attorneys on the new policy. This training was subsequently expanded to include all financial staff involved in processing purchases.

Because of the nature of the procedures involved in establishing the amount of a 7(a) loan guaranty purchase disbursement, a target goal of 2% or less is reasonable. The review that determines the amount to be disbursed to a lender is a process that serves to minimize improper payments by ensuring that SBA purchases only those loans, which were properly originated, closed, serviced and liquidated. The review process always includes a thorough analysis of the lender's administration of the loan, particularly in complicated cases or if there are questions of possible lender misconduct. The review examines whether the lender has (1) complied materially with the loan authorization, SBA regulations, standard operating procedures, loan program policy and other SBA requirements; (2) made, closed, serviced, and/or liquidated the loan in a prudent manner; (3) misrepresented or failed to disclose a material fact to SBA; or (4) put SBA's financial interest at risk. Purchase reviews are done by experienced loan specialists, reviewed by an attorney, and then reviewed again by an approving official prior to the payment authorization.

The calculation of the amount that is appropriate to pay a lender in a specific purchase is not a simple and clear-cut determination as found in most governmental payment situations. It involves substantial exercise of judgment by the reviewer based on a multiplicity of factors in the loan origination, servicing and liquidation activities conducted by the lender to determine the materiality of any lender deficiencies, and the probable loss caused by these deficiencies. Any adjustment to a purchase amount based on monetary loss is based on an estimate of the loss attributable to the lender's actions or inaction. The basis for the estimate may derive from an amount based on a formal appraisal or an educated approximation of value, depending on the circumstances and the nature of the lender's deficiencies.

For most adjustments to the purchase amount where loan collateral is involved, SBA's financial staff calculates the loss to the Agency using the forced sale equivalent (liquidation value) using standard adjustments based on the type of property involved. In certain early default situations, the repair or partial denial may be equivalent to the original cost of the items in question. Frequently, it is difficult to quantify the exact amount of loss that is attributable to the lender's actions. For example, it might not be possible to exactly determine the amount of loss resulting from a lender's failure to verify an equity injection or properly use loan proceeds, or the lender's failure to obtain IRS transcripts to verify the financial information submitted by a borrower at loan origination.

Because of the above factors, it is inevitable that there will be a certain number of purchases for which the exact amount cannot be precisely calculated, and which are subject to opposing arguments from the lender that may ultimately result in a negotiated resolution that is accepted because of pragmatic considerations based, in part, on weighing future administrative and legal costs to the government that would result if a voluntary settlement cannot be reached.

IV. Improper Payment Reduction Outlook FY2004 –FY2007

Response:

	FY 04					
Program	Out-lays	FY 04 %	FY 04 $	FY 05 %	FY 06 %	FY 07 %
7(a)	$	NA	NA	2.00	2.00	2.00

V. Discuss your Agency's recovery auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

Response: Guaranty purchase disbursements are thoroughly reviewed prior to the issuance of a government payment. A recommendation to purchase is prepared by a loan specialist and then reviewed by an attorney in regard to legal considerations, and finally it is further reviewed by a supervisor prior to approval of the disbursement. In addition, purchases are now processed using a new computerized system (Guaranty Purchase Tracking System – GPTS) that was brought on-line at the beginning of FY2004. GPTS has built in edits designed to reduce the possibility of common errors in the purchase review process. If additional errors prove to be prevalent, the system will be further modified to address them. Also, ongoing training will take place-using modules that are developed based on the results of supervisory reviews and the quality assurance review process that will be implemented in FY2005.

VI. Describe the steps the Agency has taken and plans to take (including time line) to ensure that Agency managers (including the Agency head) are held accountable for reducing and recovering improper payments.

Response: Improper payment calculations will be made each fiscal year on a continuing basis, and the nature of any improper payments will be analyzed to determine common error patterns that can be corrected through systems modifications, policy and procedural changes, or revised training materials. The Office of Inspector General will also conduct periodic audits of the guaranty purchase process and make appropriate recommendations to management.

VII. A. Describe whether the Agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the Agency has targeted.

Response: The newly developed Guaranty Purchase Tracking System will be continually updated to enhance the overall integrity of the purchase process.

B. If the Agency does not have such systems and infrastructure, describe the resources the Agency requested in its FY2005 budget submission to Congress to obtain the necessary information systems and infrastructure.

Response: Not applicable.

VIII. A description of any statutory or regulatory barriers, which may limit the Agency's corrective actions in reducing improper payments.

Response: SBA is proposing new regulations that will require lenders who do not sell their loans in the secondary market to liquidate their loans, in most instances, prior to requesting guaranty purchase.

IX. Additional comments, if any, on overall Agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

Response: Addressed above.

Agency Contact Point
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2. Certified Development Company Loan Program

Improper Payments Information Act (IPIA)
Reporting Details for Certified Development Company Loan Program

I. *Describe your Agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.*

Response: Through the Certified Development Company (504) Loan Program, SBA guarantees debentures to fund small business loans made by Certified Development Companies (CDCs) that are licensed, regulated and reviewed by SBA. The CDCs issue debentures to private investors to finance the loan transaction with the small business borrower. SBA guarantees 100% of this debenture financing, which typically covers approximately 40% of the total borrower transaction. A private sector lender generally provides 50% of the total project financing. There is no SBA guaranty associated with this portion of the financing. In the event of payment default by the borrower, and in the absence of a satisfactory workout agreement, SBA must honor its guaranty to the investor holding the debenture. This is done through a Central Servicing Agent (CSA) using precise and tightly controlled procedures. SBA's guaranty on the debenture is 100% and is unconditional to the investor. Because of the controls on the purchase process, there is an extremely small likelihood of any erroneous payments on disbursements for debenture purchases. Recovery for the CDC/SBA on the amount disbursed for purchase of a debenture is obtained through recovery from the borrower through voluntary payments, forced liquidation of collateral, or collections from guarantors.

II. *Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.*

Response: Since SBA's 100% guaranty to the debenture holder is unconditional and is accompanied by a very rigidly controlled purchase procedure, there is an extremely low possibility of any erroneous payment deficiency or other problem in connection with the debenture purchase process. The disbursement to purchase a debenture is made in accord with a strictly defined methodology using SBA's CSA. Further, except for companies participating in the Premier Certified Development Company program (which requires the development company to maintain a loss reserve account), SBA makes the final credit decision and SBA counsel undertakes a thorough review of the closing documentation for the debenture and accompanying note issued by the business financed, prior to the debenture sale and disbursement of funds. Since this is the case, the number of improper payments attributable to the debenture purchase process is negligible. Recovery on the amounts disbursed for debenture purchases is achieved through borrower payments and liquidation actions, depending on the circumstances.

If SBA were to pay an incorrect amount or pay the wrong investor, it is highly likely that we would be notified of the error by the party expecting to receive payment. The present staff has been supervising this process for the past eight years. During that time, the staff has not been made aware of any incorrect payments to investors.

III. *Explain the corrective actions your Agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway and/ or corresponding steps necessary to prevent future occurrences. If efforts are already underway and/ or have been ongoing for some length of time, it is appropriate to include that information in this section.*

Response: Any problem areas that may be identified in debenture purchases are immediately rectified through the existing claims process. SBA's field and Headquarters staff continue to train and conduct reviews of CDCs to assure compliance with all applicable laws, regulations and Agency procedures governing the program. CDCs that fail to appropriately follow these authorities will not be allowed to participate in the program. Beyond this, no further action is necessary with respect to possible erroneous payments in this program. Consequently, SBA does not believe that the 504 loan program should be included in the formal tracking of erroneous payments.

IV. Improper Payment Reduction Outlook FY2004 – FY2007

Response:

	FY 04					
Program	Out-lays	FY 04 %	FY 04 $	FY 05 %	FY 06 %	FY 07 %
504 CDC	$	NA	NA	NA	NA	NA

V. Discuss your Agency's recovery auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

Response: None required.

VI. Describe the steps the Agency has taken and plans to take (including time line) to ensure that Agency managers (including the Agency head) are held accountable for reducing and recovering improper payments.

Response: None required.

VII. A. Describe whether the Agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the Agency has targeted.

Response: The program has adequate information systems. It is important to note that although SBA relies on contractors to operate and manage a significant portion of the 504 program, SBA owns the software that is used by the Central Servicing Agent and thus has a higher level of control over that software than would typically exist when contractors are used. In addition to the control over the software, SBA requires the contractor to provide audited financial statements. To obtain an opinion audit, the auditor tests various financial controls. In addition to the opinion audit, SBA also requires a SAS 70 report from the auditor. This is a lengthy analysis of internal procedures and processes to determine if they are satisfactory. Finally, SBA also requires a COSO statement asserting that the auditor has tested the internal controls. We are comfortable that this level of independent oversight helps reduce improper payments to a negligible level.

B. If the Agency does not have such systems and infrastructure, describe the resources the Agency requested in its FY2005 budget submission to Congress to obtain the necessary information systems and infrastructure.

Response: Not applicable.

VIII. A description of any statutory or regulatory barriers, which may limit the Agency's corrective actions in reducing improper payments.

Response: Not applicable.

IX. Additional comments, if any, on overall Agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

Response: Addressed above.

Agency Contact Point
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3. Small Business Investment Company (SBIC) Programs

Improper Payments Information Act (IPIA) Reporting Details for the Small Business Investment Company Program

I. *Describe your Agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.*

Response: Information for the SBIC program is developed from two sources. The first is through examination reports performed by SBA examiners. The Investment Division's goal is to perform a regulatory audit for leveraged SBIC approximately every 12 months. The second source of information for erroneous payments is referrals by the Office of SBIC Liquidations to the Inspector General for potential fraud.

II. *Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.*

Response: SBIC Examinations – In FY 04, the Investment Division projects approximately 300 examinations will be performed. There will be approximately 365 leveraged licensees at the end of the FY. Approximately 95% of the examinations will be performed on leveraged licensees. As such our examinations will cover more than 78% of the population of leveraged SBICs. This far exceeds the sampling requirements in the Improper Payments Improvement Act. All Findings are included in this sample other than a Finding of Capital Impairment. Capital Impairment is an indicator of financial performance, not improper performance.

Referrals to OIG for potential fraud – In FY 04, the Office of SBIC Liquidations referred three cases to the Inspector General for potential fraud. The leverage associated with these referrals totals $98.5 million. It is important to note that there has been no determination of fraud in any of these cases. Additionally, the amount of fraudulent payments, if any, may be significantly less than the amounts cited above. Finally, these amounts do not reflect the potential ultimate recoveries, which would reduce SBA's exposure. Of the amounts included in FY 04, over $78 million relates to a potential fraud case involving one SBIC. We believe this to be an anomaly and reiterate that no fraud has been proven in this circumstance.

III. *Explain the corrective actions your Agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or corresponding steps necessary to prevent future occurrences. If efforts are already underway and/or have been ongoing for some length of time, it is appropriate to include that information in this section.*

Response: The Agency does not believe that any erroneous payments are made to the SBIC. However, we do recognize that SBICs may make payments to portfolio concerns that are inconsistent with our regulations. These inconsistent payments give rise to Findings in examination reports. These Findings are generally resolved fairly quickly. Oftentimes, the underlying payments are determined not to be in violation of the regulations after study by SBA. Our regulations are complex. In order to increase compliance with the regulations, we routinely hold classes on the regulations and principals in funds are required to attend. In evaluating potential licensees, we also review the adequacy of support staff so that fund managers have the resources necessary to ensure the appropriate review and compliance with regulations. Finally, a financial incentive is provided to those funds that have clean compliance reports. Over the past 4 fiscal years, reports with Finding as a percentage of total number of reports have dropped. As a higher percentage of our exam reports have focused on SBICs with leverage, we believe this to be significant.

IV. Improper Payment Reduction Outlook FY2004 – FY2007

Response:

	FY 04					
Program	Out-lays	FY 04 %	FY 04 $	FY 05 %	FY 06 %	FY 07 %
SBIC	$2,786.6M	4.65	129M	2.50	2.50	2.50

V. Discuss your Agency's recovery auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

Response: Most Findings are resolved in a fairly short time frame. The resolution can be in a number of ways. The Finding may be determined not to be a violation of the regulations after further study. In other instances, the SBIC may be asked to change the terms of the investment in the portfolio concern in a manner that resolves the Finding. If the situation cannot be corrected, the SBIC may be asked to divest its interest in the portfolio concern. In very rare instances, the SBIC might be found to be in default of its covenants and transferred to the Office of SBIC Liquidations, where recovery efforts will be implemented. This is a very rare step and has not been necessary for the most part.

VI. Describe the steps the Agency has taken and plans to take (including time line) to ensure that Agency managers (including the Agency head) are held accountable for reducing and recovering improper payments.

Response: Investment Division Operations analysts are evaluated, in part, on the resolution of Findings in a timely manner. They are also evaluated, in part, on responding to requests for clarification on regulations by licensees. Although examiners are not evaluated on the number of Findings, they are evaluated on the number of exams they perform. We believe the assistance provided by the Operations analysts and the approximately annual exams provide an incentive to perform within the framework of the regulations.

VII.A. Describe whether the Agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the Agency has targeted.

Response: The Investment Division maintains a data system that tracks exams, exam Findings and their resolution. All individuals are empowered to refer any case of suspected fraud to the Inspector General.

B. If the Agency does not have such systems and infrastructure, describe the resources the Agency requested in its FY2005 budget submission to Congress to obtain the necessary information systems and infrastructure.

Response: Not applicable.

VIII. A description of any statutory or regulatory barriers, which may limit the Agency's corrective actions in reducing improper payments.

Response: Not applicable.

IX. Additional comments, if any, on overall Agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

Response: Addressed above.

Agency Contact Point
Harry Haskins (202) 205-6510

4. Disaster Loans

Improper Payments Information Act (IPIA) Reporting Details for the Disaster Program

I. *Describe your Agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.*

Response: ODA has a disaster loan program and performs a Quality Assurance Review of each of the four Disaster Area Offices annually. A total of 480 loans are reviewed annually (120 from each office) and a part of that Disaster Loan review is to identify any deficiency that would result in an Improper Payment.

II. *Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.*

Response: As a part of the ODA Quality Assurance Review process, disaster loans are reviewed to examine its current level of Improper Payment loans. The ODA process consists of an annual review of 120 loan files in each of the Disaster Area Offices, or a total sample size of 480 files. The scope of ODA's review covers three primary compliance areas: (1) basic eligibility, (2) adherence to relevant laws, rules, regulations and standard operating procedures and (3) credit worthiness. According to the formulas provided in OMB guidance dated 5/21/03, ODA sample size far exceeds that required by the Improper Payments Information Act of 2002 (Public Law No 107-300)

III. *Explain the corrective actions your Agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or corresponding steps necessary to prevent future occurrences. If efforts are already underway and/or have been ongoing for some length of time, it is appropriate to include that information in this section.*

Response: The error rate on disaster loans is well below the 2.5% and $10,000,000 thresholds. ODA recognizes that one contributing factor to the low percentage of Improper Payments is the unusually overall low volume of disaster activity during fiscal year 2004. However, ODA fully expects the recent Hurricane disaster declarations to push disaster activity to an unusually high volume of loan making for fiscal year 2005. The magnitude of this increased activity will magnify the task of maintaining our current low Improper Payments percentage. To meet this challenge ODA will continue its current plan to more fully automate its processes as well as update and continue the Quality Assurance Review of its field offices.

IV. *Improper Payment Reduction Outlook FY2004 – FY2007*

Response:

	FY 04					
Program	Outlays	FY 04 %	FY 04 $	FY 05 %	FY 06 %	FY 07 %
Disaster	$806.4M	.13	1.1M	1.0	1.0	1.0

V. *Discuss your Agency's recovery auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)*

Response: Not applicable. ODA's Improper Payments percentage is 0.13% for $1.1 million, which is well below the Agency's recommended thresholds. In addition, the disaster loan program already has a built in recovery system in that the majority of loans made are collateralized and all loans have to be repaid.

VI. *Describe the steps the Agency has taken and plans to take (including time line) to ensure that Agency managers (including the Agency head) are held accountable for reducing and recovering improper payments.*

Response: The disaster loan program has a number of checks and balances in place to ensure that assistance is provided to eligible recipients and at amounts determined to be appropriate. Disaster related damages are verified onsite by SBA staff. The cost to repair and/or replace the disaster-damaged property is determined by SBA construction analysts. ODA also makes appropriate credit checks, verification of income, verification of ownership and checks with FEMA to ensure that Federal assistance is not duplicated during loan processing and disbursement of all disaster loan funds. Finally, every secured loan is reviewed by staff attorneys for legal sufficiency and use of electronic funds transfer is utilized to prevent lost and stolen checks.

It should be noted that while the erroneous payment amount indicated above is represented by the approved loan amount, the actual cost of the loan to the government is determined by the subsidy rate. Applying the subsidy rate to the loan amount would reduce the actual erroneous payment amount by approximately 80 percent.

VII. A. Describe whether the Agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the Agency has targeted.

Response: ODA is already well below the improper payments levels the Agency has targeted. Nonetheless, ODA is in the process of developing and implementing an integrated, electronic loan processing system to streamline, enhance and improve the loan-making process. It will replace multiple systems that currently support disaster operations. This system will support workflow management, electronic file management and document generation functions. In fact, a Quality Assurance Task Force partnered with the Disaster Credit Management System (DCMS) development team to improve the Quality Assurance process with a goal to minimize future Improper Payments events as much as possible. As a result, many of the business rules that govern the programming of this new system have been designed to help improve the Quality Assurance process. The DCMS will significantly impact the disaster assistance program and the manner in which it delivers services to disaster victims.

B. If the Agency does not have such systems and infrastructure, describe the resources the Agency requested in its FY2005 budget submission to Congress to obtain the necessary information systems and infrastructure.

Response: Not applicable.

VIII. A description of any statutory or regulatory barriers, which may limit the Agency's corrective actions in reducing improper payments.

Response: Not applicable.

IX. Additional comments, if any, on overall Agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

Response: Addressed above.

Agency Contact Point
George Camp (202) 205-6734

Debt Servicing and Collection Practices

The SBA has extensive debt servicing and collection practices to ensure maximum recovery. Borrowers indicate on loan applications whether they are delinquent on government debt. Credit reports are used to identify delinquent Federal obligors. Delinquent Federal debtors are subsequently barred from obtaining SBA guaranteed loans. The Agency actively uses Federal salary offset and conducts annual matching of delinquent debtor records for civilian and military Federal employees/retirees with the Department of Defense. The SBA requires every loan applicant to disclose his or her taxpayer identification number (TIN). The SBA reports delinquent debt to the Credit Alert Interactive Voice Response System (CAIVRS) maintained by the Department of Housing and Urban Development (HUD). Debt servicing and collection procedures include the acquisition and sale of collateral through liquidation processes.

Treasury Cross-Servicing and Administrative Offset Programs

The Treasury Cross-Servicing Program is a centralized debt collection program of the Treasury's Financial Management Service. The cross-servicing program includes the Treasury administrative offset program (TOP), which offsets Federal tax refunds, Federal salary and retirement pay, Social Security benefit payments and other Federal disbursements that otherwise would be paid to a delinquent borrower. In addition to inclusion in TOP, Treasury refers delinquent accounts in cross-servicing to collection agencies and the Department of Justice for litigation. All legally collectible charged-off SBA loans participate in cross-servicing, and loans more than 180 days delinquent that are not charged-off are referred separately to Treasury for offset. FY2004 was yet another excellent year for SBA cross servicing and TOP; more than $11.1 million was collected from almost 30,000 delinquent and charged-off (mostly disaster) loans in the cross-servicing and TOP portfolio. Cross-servicing and TOP ended FY2004 with a total outstanding balance of approximately $1.2 billion in active loan accounts subject to collection. SBA also intends to participate with the Treasury on a pilot program to implement a new web-based credit alert system (called Debt Check) that will use the TOP database of delinquent debtors.

Lender Oversight

The Office of Lender Oversight (OLO) manages the Loan/Lender Monitoring System (L/LMS). This System's Lender Oversight & Risk Management on-line system, was completed in FY2003. This is not a system of record, and therefore does not populate/feed any of the Agency's other databases. Instead this system has a database set up to monitor and review 7(a) & 504 lenders and overall portfolios. Data in this system comes from the Loan Accounting Database (Mainframe), Partner Identification and Management System (PIMS), supplemental 504 data from Colson & Bank of New York (504lamp), and private sector borrower information (D&B, etc.).

Lender Oversight integrated the loan and lender monitoring system into its operations. The system is used to rate and rank lenders according to risk. Smaller lenders are overseen exclusively utilizing the system and its risk ratings. Exception reporting identifies those smaller lenders with changes in performance and credit quality trends for follow-up. Larger lenders are also subject to on-site reviews. The system is used to prioritize reviews, plan and conduct reviews, and monitor large lenders between reviews. Since there are almost 4,000 lenders with SBA loan portfolios of less than $1.0 million, the system provides an efficient means of overseeing performance without the need to review each one individually. This approach allows SBA to better utilize its resources and focus on those lenders representing the most risk to SBA in terms of exposure and credit quality while monitoring those representing less risk.

The SBA is committed to continually improving its internal systems to ensure a close integration of its program performance and budget processes. During FY2003, all SBA's programs were internally evaluated using the OMB Program Assessment Rating Tool. As a result of the evaluation it became apparent that there was a generalized need for assisting the programs with the linkage of their performance indicators with Agency's outcomes. Additionally, the new SBA Strategic Plan accentuated the need. In response, this year an independent evaluation of many Agency programs was started. This was a recommendation of the PART process which the Agency is implementing. Instead of providing resources for all programs, the Agency decided to focus on Strategic Goal 2 which represented approximately 2/3 of SBA's budget during FY2003. This should be a more efficient use of the funds, at the same time that emphasizing the multiple contributions required for achieving the Agency's long-term objectives.

Portfolio Aging

The SBA carefully monitors its credit portfolio to watch for deterioration. When a borrower makes all payments, the SBA carefully monitors its credit portfolio to watch for deterioration. When a borrower makes all payments as agreed and on time, the borrower is considered "current." The portion of loans in the portfolio with current payments, as compared to the total portfolio, is called the "currency rate." Deterioration in the currency rate signifies potential problems for the SBA, and the Agency takes prompt action to bring borrowers current. The following table provides a history of the performance of SBA's credit portfolio. Generally, actual credit portfolio results have improved during this period due to programmatic and economic factors.

Loss Reporting

Each year, the SBA provides a Loss Report to Agency management for its Business and Disaster programs. The losses for direct and guaranteed loans made for the Business program are presented. The Disaster program is a direct loan program and the losses are shown for this program. The report also includes the losses for guaranteed loans made under the Disaster program years ago. The Loss Report presents the actual losses as a percentage of disbursements made to date since program inception. The report allows the user to review historical and current year data for the Business and Disaster programs.

Loss data includes charged-off Business and Disaster loans. Once the Agency has exhausted all debt collection methods, the SBA classifies a loan as charged-off. For guaranteed loans, the loan must first be purchased from the participating lender before this classification can be made. Most liquidation activity for Business guaranteed loans is now conducted by SBA's participating lenders and SBA purchases the balance remaining after the banks liquidation is completed. Loss data also includes expenses charged to the loan liquidation such as fees for title searches and re-filing charges.

The SBA's Loss Reports beginning with Fiscal Year 1996 are available on the Internet at http://www.sba.gov/library/recordsroom.html.

SBA Portfolio Aging						
Currency Rate[6]						
Currency Rate[6]	FY 1999	FY2000	FY2001	FY2002	FY2003	FY2004
7(a)	89.80%	90.40%	92.20%	93.50%	94.10%	96.00%
504	98.00%	98.40%	99.60%	99.50%	99.50%	100.00%
Disaster Home Loans	90.60%	89.60%	89.60%	89.60%	89.10%	87.10%
Disaster Business Loans	85.00%	85.10%	85.20%	91.30%	88.40%	84.40%
Default Rate[7]						
Disaster Home Loans	6.50%	7.40%	7.20%	6.80%	7.10%	6.10%
Disaster Business Loans	12.10%	11.50%	11.50%	7.40%	8.20%	15.60%
Purchase Rate[8]						
7(a)	15.10%	14.40%	14.35%	13.90%	10.04%	10.43%
504	13.30%	11.90%	11.10%	8.40%	8.30%	7.52%
Recovery Rate[9]						
7(a)	61.00%	60.50%	60.70%	60.30%	51.92%	51.95%
504	31.10%	24.90%	31.30%	26.90%	19.97%	17.07%
Disaster Home Loans	4.60%	4.60%	5.00%	4.47%	3.90%	4.47%
Disaster Business Loans	11.80%	11.80%	19.40%	11.82%	9.19%	11.82%

6. *The proportion of each year's disbursed dollars with on-time payments.*
7. *The proportion of each year's disbursed dollars over 60 days delinquent.*
8. *The proportion of each year's disbursed dollars purchased from lenders due to borrower default as forecasted in the budget for that fiscal year.*
9. *The proportion of total lifetime purchased dollars (actual plus forecasted) to be recovered by SBA or lenders, net of expenses as forecasted in the budget for that fiscal year.*

SBA FY2004 Loss Report–All Business Loans			
	Direct	Guaranteed	Program Total
Disbursements			
Balance as of 2003	$7,177,848,396	$137,562,267,634	$144,740,116,030
FY2004	$20,594,645	$12,128,577,837	$12,149,172,482
Cumulative Disbursements	$7,198,443,041	$149,690,845,471	$156,889,288,512
****Charged Off Loans**			
Balance as of 2003	$1,561,772,687	$7,756,738,456	$9,318,511,143
2004 Loan Principal	$117,657	$251,815,919	$251,933,576
2004 Judgment Principal	($149,801)	$10,915,565	$10,765,764
2004 Other Receivables	$703,984	$1,386,166	$2,090,150
Cumulative Charged Off Loans	$1,562,444,527	$8,020,856,106	$9,583,300,633
Recoveries			
Balance as of 2003	$87,090,513	$354,738,801	$441,829,314
FY2004	($519,166)	$12,891,392	$12,372,226
Cumulative Recoveries	$86,571,347	$367,630,193	$454,201,540
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	$1,475,873,180	$7,653,225,913	$9,129,099,093
Actual Loss Rate	20.50%	5.11%	5.82%
** Asset sales data is also included			

SBA FY2004 Loss Report–Disaster Loans			
	Direct	Guaranteed	Program Total
Balance as of 2003	$25,336,781,553	$39,817,968	$25,376,599,521
FY2004	$465,152,253	$0	$465,152,253
Cumulative Disbursements	$25,801,933,806	$39,817,968	$25,841,751,774
**** Charged Off Loans**			
Balance as of 2003	$2,808,083,253	$2,080,743	$2,810,163,996
2004 Loan Principal	$64,670,920	$0	$64,670,920
2004 Judgment Principal	$1,519,695	$0	$1,519,695
2004 Other Receivables	$693,163	$8,740	$701,903
Cumulative Charged Off Loans	$2,874,967,031	$2,089,483	$2,877,056,514
Recoveries			
Balance as of 2003	$219,102,607	$11,811	$219,114,418
FY2004	$10,794,691	($6,697)	$10,787,994
Cumulative Recoveries	$229,897,298	$5,114	$229,902,412
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	$2,645,069,733	$2,084,369	$2,647,154,102
Actual Loss Rate	10.25%	5.23%	10.24%
** Asset sales data is also included			

Credit Subsidy Information

FCRA requires that all agencies budget for the "cost" of credit programs by measuring the net present value of cash flows to and from the government. Loans approved during the same fiscal year in the same appropriation fund are assigned to a "cohort," which is funded by appropriations for that year. Loans may be obligated or guaranteed only to the extent Congress appropriates funds and these funds are deposited in SBA accounts at the Treasury. These funds are used as a reserve for any losses from the programs. This reserve is also reported in the preparation of SBA's annual financial statements as required by rules promulgated by the Federal Accounting Standards Advisory Board.

Prior to the beginning of the government fiscal year (and before any loans or guarantees are issued), SBA produces an estimate of the cost, called a "subsidy rate," for each program by developing models that forecast annual cash flows from SBA's programs. Extensive amounts of historical transactional loan data and accounting data are used to develop this initial subsidy rate. Upon the passage of SBA's appropriation and authorization bills, this becomes the original subsidy rate. Once the fiscal year has been completed, and annually thereafter, the Agency produces a re-estimate that adjusts its initial estimate based on the most recent information available. Based on the re-estimate, funds are either remitted to or obtained from the Treasury for SBA's use without the need for further Congressional action. SBA produces re-estimates for all of its major programs annually. Due to timing considerations, these are normally produced using information ending in March of the previous fiscal year and then annualized. On other programs that are not financially material, SBA produces the re-estimates on a different schedule based on different considerations.

SBA currently develops subsidy rates for the following programs on an annual basis: 7(a), 504, SBIC, Debentures and Participating Securities, Disaster loans for home and business, and Disaster loans for the World Trade Center disaster. Re-estimates for direct and guaranteed MicroLoans and other smaller programs are normally produced at least every two years.

The following table shows the latest re-estimate of subsidy rates for the 7(a) program for all cohorts originated under the requirements of the FCRA. The total subsidy cost is the sum of the components for the interest subsidy costs, default costs (net of recoveries), fees and other collections and other costs. The SBA has prepared these estimates for loan guarantees in the current year's budget for the current and past years' cohorts. Each subsidy rate represents the cost as a percentage of the direct or guaranteed loans obligated in the cohort. Tables showing the latest re-estimate of subsidy rates for other programs can be found in footnote 6N to the Principal Financial Statements.

SBA 7(a) Subsidy Rates

Cohort	Original Subsidy Rate	2004 Re-Estimate	Subsidy Rate Re-Estimate Components		
Year	Total	Total	Interest	Default	Fee
1992	4.85	1.92	0	3.39	-1.47
1993	5.47	1.06	0	2.75	-1.69
1994	2.15	1.14	0	2.97	-1.83
1995	2.74	2.17	0	3.93	-1.76
1996	2.74	0.74	0	3.83	-3.09
1997	1.93	0.37	0	3.55	-3.18
1998	2.14	0.65	0	3.82	-3.17
1999	1.39	0.72	0	3.94	-3.22
2000	1.16	0.54	0	3.78	-3.24
2001	1.16	0.47	0	3.78	-3.31
2002	1.07	0.31	0	4.20	-3.89
2003	1.05	1.39	0	3.38	-1.99
2004	1.06	0.23	0	3.46	-2.40
2004 (4/5/04)	0.58	0.23	0	3.44	-2.86

As with any estimate, the accuracy of subsidy rates can be affected by many variables, including economic conditions, legislation, credit origination and servicing policies, and various subsidy estimation methodologies and assumptions. SBA now uses a sophisticated statistical calculation that takes these variables into consideration during the life of each individual loan.

Fee income has increased over the past ten years as a result of changes in the statutory fee rates.The SBA's subsidy account is entitled to two principal fees from loan guarantees: an up-front "guarantee fee" and an annual servicing fee. Fee income is affected by many items, including the rate of prepayments, defaults and the mix in loan volumes. During 2004 (April 4th) 7(a) fees were increased and fee income was 2.86%, which lowered the subsidy rate to .58% for the last half of the fiscal year.

Fees and Charges

The SBA annually or biennially assesses user fees and other program charges in accordance with the Chief Financial Officer (CFO) Act, 31 U.S.C. 902(a)(8).Annually, the SBA estimates program revenues and charges (or costs), and these are included as part of the *President's Budget.* Certain fees and charges are also included in the program subsidy calculations for the *President's Budget*.

The SBA evaluates the sources and amounts of actual and anticipated revenues and expenses in order to calculate the subsidy rate for each program. Changes to fees and other charges can be made legislatively as part of the budget process. Each year, SBA evaluates legislative changes and other possible factors affecting revenues and expenses and re-calculates the subsidy rates.

The chart depicts fees the SBA charges for its programs with a description of each fee.

Federal Financial Management Improvement Act (FFMIA)

As part of the Agency's financial statement audit, the IPA reported for FY2003 (as it had for the two prior years) that the SBA is not in compliance with the systems, accounting and SGL requirements under FFMIA. The FY2003 report follows.

SBA Remediation Plan
Tracking number: FFMIA-03-02
Title of Noncompliance: Financial Systems, Financial Reporting and SGL

SBA is not in substantial compliance with Federal financial management system requirements, because:

- Its core financial system was not able to provide complete, reliable, timely, and consistent financial management information on programs to enable management to fulfill its responsibility to the public and provide timely financial information for preparing financial statements and footnotes and managing current operations, as required by OMB Circular A-127, Financial Management Systems. (SBA Management Did Not Meet Milestone Dates And Required Excessive Time To Address Audit Questions)

SBA Program Fees

Program	SBA Fee Type	Fee Description
Financial Assistance	7(a) and 504	Loan servicing and guarantee fees.
SBIC	Leverage Fee	Nonrefundable fee payable upon commitment or draw down.
	Annual Fee	Annual fee paid to SBA on outstanding leverage issued on or after October 1996.
	Licensing Fee	Fees collected to process SBIC license applications.
	Examination Fee	Fees collected to perform SBIC examinations.
Surety Bond Guarantee	SBG and PSB	Contractor and surety fees.
Office of Lender Oversight	Examination Fee	Fees charged by and paid directly to SBA Contractor to assist with performance of PLP 7(a) lender reviews
Small Business Publications	Publications for Sale	Amounts collected with publication orders.

- Access control, segregation-of-duty, and other general-control weaknesses existed, which will be described in the Office of Inspector General report titled Audit of SBA's Information System Controls, FY2003. (Agency-Wide Information Systems Control Environment)

- Security weaknesses and nonconformance with OMB Circular A-130, Management of Federal Information Resources, continued to exist in certain major applications and general support systems. (Agency-Wide Information Systems Control Environment)

- SBA maintained insufficient funds control over obligations entered via journal voucher in the Financial Reporting Information System (FRIS). (Antideficiency Act Control Needs Improvement)

SBA was not in substantial compliance with Federal accounting standards, because it:

- Could not support the valuation of subsidy-related balances for the Disaster Assistance, 504, Small Business Investment Company, Participating Security and Section 7(a) loan programs. (Procedures to Identify and Explain Unusual Subsidy Balances)

- Improperly reversed prior-year audit adjustments, misstating current-year budgetary collection and disbursement activity. (Invalid Budgetary Pro-Forma Entries)

- Overstated loan and administrative undelivered orders at September 30, 2003, when it failed to de-obligate unneeded obligations and properly accrue for goods and services received as of September 30, 2003. (Monitoring Undelivered Orders)

- Improperly valued the entry to realign subsidy costs from the consolidated balance sheet line item Liabilities for Loan Guarantees to Credit Program Receivables and Related Foreclosed Property, Net for defaulted guarantee loans. (Subsidy Realignment Entry)

- Recorded invalid budgetary transactions based upon improper budgetary posting logic for asset-sale administrative costs and liquidating fund transactions. (Invalid Budgetary Pro-Forma Entries)

- Improperly recorded Disaster Assistance program subsidy re-estimates. (Disaster Re-estimate Misstated)

- Disclosed insufficient detail about prior-period adjustments and credit subsidy matters. (Inadequate Disclosures Associated with FY2002 Restatements)

SBA was not in substantial compliance with the United States Government SGL at the transaction level, because:

- Its combined statement of budgetary resources reflected line item misstatements resulting from failure to record Federal Financing Bank repayment transactions in accordance with SGL criteria. (Invalid Budgetary Pro-Forma Entries)

- SBA's program for posting budgetary transactions to FRIS (known as "Budget Proforma"), which is based upon proprietary and memorandum events in the Loan Accounting System, recorded numerous transactions that did not comply with SGL posting logic. (Invalid Budgetary Pro-Forma Entries)

- SBA's automated transaction code used to record default payments to guarantee lenders, improperly recorded purchased interest as contra revenue instead of an expense. This treatment understated program revenues and expenses. (Inadequate Control Over Accounting Entries Related To Transaction Code 195)

- SBA recorded invalid recoveries of prior-year obligations and obligations incurred as the result of conversion problems from its Federal Financial System to its current Oracle-based administrative accounting system. (Monitoring Undelivered Orders)

FFMIA Remediation Plan Update

The FFMIA noncompliance is also related to the "qualified" compliance with the Federal Managers Financial Improvement Act (FMFIA) found in the Administrator's FY2003 FMFIA Statement of Assurance.

During FY2004, the SBA addressed the recommendations made in the FY2003 financial statement audit. This action included addressing the above findings regarding SBA's compliance with FFMIA.

The following plan addresses the FFMIA and FMFIA reported weaknesses.

FFMIA Remediation Plan FY2004

Corrective Actions	Target Date	Status	Project Lead
FAS – Determine Disaster program costs	2003	Complete – Disaster subsidy model rebuilt; Disaster credit costs determined; Cost of loan sale program identified	Deputy CFO
FAS – Implement controls to assure accurate re-estimates of credit subsidy cost	2004	Complete – Controls for data, model format, methodology and validation included in development of subsidy re-estimates	Deputy CFO
FAS – Document methodology used in re-estimates of credit subsidy costs	2004	Complete – Documentation developed for all subsidy models	Deputy CFO
FAS - Meet 11/15/04 deadline for FY 04 financial reports	2004	To be complete 11/15 – Plan with interim milestones used successfully in 04 reporting	Report staff
FMS – Improve funds control over transactions entered in the FRIS general ledger (automated and manual controls)	2004	Complete – Implemented control over payments and GL transactions; Monitored fund usage to assure ADA compliance	Deputy CFO
FAS – Improve quality assurance for FY 04 accounting and reporting activity	2004	Complete – Improved QA for 04 accounting entries, 03 restatements entries and prior year audit adjustment reversals	Report staff
FAS – Improve QA over recordation of credit subsidy re-estimates including Disaster subsidy re-estimates and the allowance on guarantee defaults	2004	Complete – QA for transactions to record 04 re-estimates and 03 restatements completed including Disaster re-estimates and the allowance for guarantee defaults	Report staff
FAS – Improve GL proformas to comply with accounting standards	2004	Complete – Updated budgetary proformas and GL crosswalk to comply with standards	Report staff
FAS – Properly value administrative and program undelivered orders	2004	Complete – Report to monitor program UDO, Administrative UDO's closely monitored to remove unneeded obligations by yearend	CFO, Program offices
FMS – Improve core system – Integrate footnotes with financial statements	2004	Complete – Links between F/S data and footnotes automated; Word text with links to Excel data tables	OCFO Report and System staffs
FAS – Enhance footnote disclosures to the F/S to include needed detail on 04 activity and prior period adjustments	2004	Completed – Footnotes reviewed for Federal best practices; Extensive edit to improve footnote quality is completed.	Deputy CFO Report staff
SGL – Update budgetary proformas for SGL compliance including FFB, TC195	2004	Completed – Corrections to FFB, TC 195 included in FY 03; All proformas reviewed for SGL compliance	Report staff
FAS – Improve the accounting for administrative transactions to address ALC and prior year obligations issues	2004	Complete – Manual process in 04 to record ALC activity and monitor prior year obligations; Oracle 11i implemented 10/04 to address ALC and PYO issues	OCFO

FAS – Financial Accounting Standards
SGL – Standard General Ledger
FMS – Financial Management System requirements

FFMIA Remediation Plan FY2004			
Corrective Actions	Target Date	Status	Project Lead
FMS – Address internal control issues with financial systems – Access controls, segregation of duties, other weaknesses	2004	Subsidy model controls improved for model development and administration; Coop with HLS; DR with Corio; 11i access monitoring	OCFO
FMS – Integrate procurement processing with the general ledger	2005	OCFO will work with OPGM on JAAMS Phase 2 for single entry of procurement data	OCFO – Syst., Actg staffs
FMS – Improve FRIS general ledger operation and maintenance	2005	Obtain an ASP or other permanent operation and maintenance of FRIS	OCFO – Fin. system staff
FMS – Implement Etravel	2005	Implement Etravel and integrate it with the general ledger	OCFO – Actg, syst. staffs

LONG-TERM OBJECTIVE 4.4

Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.

The following outcome measures will determine success in meeting this objective:

4.4.1 By FY2005, complete the Agency enterprise architecture aligning Agency programs and systems.

4.4.2 By FY2008, standardized Information Technology (IT) portfolio selection, control, and evaluation processes and performance metrics will be developed and implemented to gauge the progress of investments and their contribution to program outcomes.

4.4.3 By FY2004, SBA will achieve efficiencies of business processes and cost reductions by leveraging common E-Government solutions and technologies.

SBA Annual Results

During FY2004, SBA was able to increase its E-Government rating on the President's Management Agenda to "green."

The Office of the Chief Information Officer (OCIO) improved its ability to support program execution by completing new organizational SOP and establishing a project management office. SBA's major IT investments, as required under the President's Management Agenda, stayed within 10% of their applicable cost, schedule and performance range throughout the year. This was accomplished largely by OCIO introducing a structured program of Earned Value Management (EVM) practices among a core group of Agency project managers representing several offices.

OCIO also established an Office of E-government and continued its commitment to e-gov activities, as illustrated by participation in and contributions to 18 of the 24 cross-Government projects. SBA successfully implemented the initial phase of the "Business Gateway" that will serve as a one-stop resource for small business in dealing with government.

SBA also strengthened internal processes to ensure that future IT investments align with the Agency's mission and vision by establishing the Enterprise Architecture Technical Review Board and creating the Business Technology Investment Advisory Committee, co-chaired by the DCIO and DCFO, together these bodies assess IT investments, and do so more frequently, to ensure that SBA's resources are being allocated consistent with the Agency's mission and strategic goals.

Intermediate Outcome Measure: Attain a rating of "green" on status for the E-Government initiative of the President's Management Agenda.

During FY2004, SBA was able to increase its E-Government rating on the President's Management Agenda to "green."

Office of the Chief Information Officer

The Office of the Chief Information Officer (OCIO) improved its ability to support program execution by completing new organizational SOP and establishing a project management office. A proposed cadre of project manager candidates was selected and tools for improved project management were developed, including a library of standard project management templates matched to SBA's systems development methodology.

SBA's major IT investments, as required under the President's Management Agenda, stayed within 10% of their applicable cost, schedule and performance range throughout the year.

OCIO established an Earned Value Management (EVM) process and practices in SBA by: (1) selecting an approved EVM software tool and training a cadre of Project Managers in its use; (2) collecting EVM data for major IT development projects; (3) verifying project managers' EVM cost data against FY2004 budget and associated plans; (4) generating monthly EVM planned vs. actual cost-schedule-performance variance curves for Q1–Q3, FY2004 (at time of this report); and (5) notifying OMB of progress and transmitted sample EVM data including "cost curves."

Enterprise Architecture

During FY2004, the SBA completed its latest Enterprise Architecture (EA) update, which produced three key SBA EA documents: Enterprise Architecture Blueprint version 2.02, (the AS-IS and TO-BE Architecture), the SBA Program Policies and Procedures version 1.1 (EA Governance), and the SBA EA Migration and Sequencing Plan version 1.1 (Gap analysis, project ID and priority plan). Updates to other SBA EA products included the SBA Strategic Business Plan and the E-Government Strategic Plan.

SBA and an Independent Validation and Verification (IV&V) contractor also validated the EA to ensure compatibility with the model in the "Practical Guide to Federal Enterprise Architecture" and to ensure it is at a level of detail sufficient to make decision about IT projects and proposals. The IV&V report comprises a road map for maturation of the Agency Enterprise Architecture. FY2006 goals are to integrate all Enterprise IT strategic plans (Agency IT strategic plan, E-Government strategic plan and EA Sequencing and Migration Plan), and to develop an integrated Enterprise IT implementation plan and resource estimate.

The Enterprise Architecture Program Management Office (EA-PMO) was created as part of a realignment of the CIO organization to meet guidelines established by the E-Gov Act of 2002. The creation of the EA-PMO is aimed at improving SBA's EA maturity level standing as defined by GAO in a recent survey. Also in 2004, the EA Technology Review Board (TRB) was established to ensure that new and existing IT projects are in compliance with the SBA EA current or target architecture. The TRB charter was completed and the Board executed its first decisions under policy and procedural rules established in 2003.

Electronic Records

During FY2004, SBA received approval for an additional five schedules for electronic information systems. The National Archives and Records Administration (NARA) is currently reviewing 11 schedules for electronic information systems and an additional 12 schedules for Loan Accounting subsystems were submitted to NARA.

Communications and Network Operations

Network Operations Center.

Standard network operations tasks performed by technicians in the Office of the Chief Information Officer (OCIO) typically include server and desktop software upgrade deployments; network, server, router and e-mail monitoring; problem resolution; and IT asset inventory. Previously, most of this work was reactive in nature. But in 2004, OCIO network and communications staff designed and implemented a Network Operations Center (NOC). The NOC houses all network monitoring and response activities in a single location to better serve system users, diagnose faults and repair problems affecting SBA enterprise network performance.

Through the NOC, SBA can improve remote software distribution; administer uniform technical practices; monitor anti-virus activity; and enforce the deployment of security patches across the Agency. Through the NOC, OCIO can now monitor, maintain and respond to network problems before they become fatal.

Desktop and Network Standard Software.

To deliver better and more reliable services to employees and small business clients, SBA migrated 75% of the offices still using Microsoft's Windows NT system software to Microsoft's Windows 2000 and MS Office XP software, with replacement of computers as needed.

E-Mail Hardware Platform Upgrade.

With few exceptions, most of SBA's e-mail servers had been in continuous service since installation in 1996. To improve overall performance and message storage, during FY2004, OCIO replaced e-mail servers and updated associated operating systems to Microsoft's Windows 2000 version. Realized benefits include increased system stability and reliability, improved system performance, improved scalability and improved system security.

Data Services Migration to AT&T.

AT&T was selected to provide network and telecommunications services for the SBA enterprise when performance problems could not be resolved by the previous provider. Network and telecommunications data services were transferred to AT&T to achieve better service, performance and efficiency. These services include (1) SBA's wide area network communications lines comprising the platform for Internet, Intranet, Extra-net and interAgency communications; (2) Internet access; (3) remote access to enable telecommuters and staff working from home or while on travel to access SBA's computing enterprise; (4) Internet monitoring to prohibit access to unauthorized Internet sites; and (5) Managed Network Services providing continual monitoring of those SBA network components housed at AT&T's data center.

Herndon Office Center Implementation.
OCIO assisted the Office of Management and Administration, Administrative Services with the establishment of SBA's Herndon Office Center, providing the telecommunications design, equipment requirements and later implementation of the telecomm and network components. These services provide the Herndon Center with voice and data communications, including e-mail and Internet connectivity.

IT Security
During FY2004, OMB certified that SBA's IT Security Program accomplished a green rating. SBA also improved its Congressional IT security protection rating, raising the Agency's score from "F" to "C-."

SBA's IT capital investments in security and privacy featured an integrated planning framework and a unified approach to developing and implementing necessary security policies, components, and practices. These actions ensured confidentiality, availability and integrity as outlined in the Federal Information Security Management Act of 2002. SBA's strategic security plan identified the processes, resources, responsibilities and issues associated with these key components for FY2004:

Planned for FY 04	Final Status
Security and Privacy Policy and Guidance	Accomplished
Risk Management	Accomplished for 37 of 38 Systems
Contingency Planning	Accomplished for 37 of 38 Systems
Incident Reporting and Response	Filed Monthly and Ad-Hoc Reports
Vulnerability Analysis and Penetration Testing	All New and Re-certified Systems
Computer Security Awareness and Training	For End Users and DSO/IRMs

Information Systems Support
During FY2004, SBA restructured its mainframe contract to reduce maintenance costs in hard-to-fill labor categories. These changes will save an estimated $1.2 million in fixed costs by February 2007.

The Agency migrated off of the mainframe and into a Web-based Internet environment for SBA's Guaranty Purchase system, with added support for the loan purchasing office in Herndon and the OCFO finance office. Several paper report processes were replaced with an on-line reporting system. A new system development and acquisition process was implemented to better organize and streamline SBA's Systems Development Methods templates and provide SBA program offices a clearer means to identify their information needs and to insure that their IT system needs are met.

More Web support was provided for E-tran with SBA's commercial lending partners to process loan guaranties completely via the Web, thereby reducing SBA staffing requirements and improving support to the small business community. Over 50% of all loan guaranty processing will be done via Internet by FY2004 year-end, permitting SBA to close down certain earlier generation mainframe systems in early FY2005.

SBA processed 440 maintenance requests for legacy systems and data center services from the Office of Capital Access, 230 requests from the Office of the Chief Financial Officer, 390 requests from Field Operation, and 360 requests from other remaining SBA Offices. The Agency redesigned both SBA's public-facing Web site and its Intranet to improve graphics, readability and utility for customers.

LONG-TERM OBJECTIVE 4.5

Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals.

The following Outcome Measures will determine success in meeting this Objective:

4.5.1 By FY2006, SBA will achieve a rating of "green" for having met all of the Core Criteria of the Competitive Sourcing Initiative on the PMA.

4.5.2 By 2006 and maintained each year thereafter, the average time for competitive sourcing competitions will decrease to 12 months, from the FY2003 baseline of 36 months.

SBA Annual Results

Outcome Measure 4.5.1.

By FY2006, SBA will achieve a rating of "green" for having met all of the Core Criteria of the Competitive Sourcing Initiative on the PMA.

During FY2004, SBA went from a red to yellow rating in Progress and from red to yellow rating in the status of Competitive Sourcing. SBA conducted five streamlined competitions on work performed by 251 full time equivalent employees (FTE), which could potentially save SBA an estimated $1.6 million. SBA submitted to OMB an updated Competitive Sourcing Plan, which reflects OMB guidance to conduct 10 competitions by the end of FY2005. Further, SBA completed and transmitted the FY2003 competitive sourcing report to Congress required by P.L. 108-199, and completed and transmitted the FY2004 Federal Activities Inventory Reform (FAIR) Act inventory.

In regard to specific competitions, SBA has substantially developed the Performance Work Statement to be made part of the Request for Proposals for the Office of Disaster Assistance loss verification competition. This competition will affect 130 employees. In addition, SBA substantially completed the Agency Tender proposals, i.e. Most Efficient Organization (MEOs) for the Government Contracting/Business Development (GC/BD) and Equal Employment Opportunity (EEO) & Civil Rights Commission (CRC) competitions. Based on consultation with OMB, the Agency began performing preliminary work to re-compete the Office of Investment examination activities (23 employees) as a standard competition during FY2005.

Intermediate Outcome Measure:

Achieve a reduction both in SBA operating costs and in program costs imposed on small businesses.

The SBA, through its Office of Administration (OA), worked closely with program and support offices during FY2004 to improve space and lease expense management. Through a targeted rent saving initiative, SBA identified opportunities to reduce office space and the corresponding rent expenses. During FY2004, the Office of Facilities Management, under the Office of Administration, completed 11 space reduction projects. Of these 11 projects, 1 was a result of a lease expiration and 10 were to return excess space. Of these 11 projects, 9 were completed in FY2004 and the Agency began realizing cost savings during that year (approximately $188K). The remaining 2 projects were completed during September of FY2004 and other new projects were begun. **The projected annual savings from these initiatives will be $1.9 million.**